(4) Long-Term Debt-

Outstanding debt as of December 31, 2000 and 2001 consists of the following (in millions):

	2000	2001
Commercial paper and credit facilities	\$ 3,629	\$ —
Floating rate notes due 2001 and 2002	1,560	60
7.88% • 8.25% Notes Due 2003-2010	3,500	3,500
7.38% Notes Due 2006-2011	2,000	2,000
6.13% - 6.95% Notes Due 2001-2028	6,100	4,600
7.13% - 7.75% Notes Due 2004-2027	2,000	2,000
8.88% Senior Notes Due 2006	672	••••
7.13% - 8.25% Senior Debentures Due 2023-2027	1,436	1,434
6.13% - 7.50% Senior Notes Due 2004-2012	1,934	1,925
6.50% - 8.25% Notes Due 2004 - 2031	_	11,939
Intermedia 11.25% - 12.25% Senior Discount Notes Due 2007 - 2009		643
Intermedia 8.50% - 9.50% Senior Notes Due 2007 - 2009	******	581
Capital lease obligations (maturing through 2017)	413	953
Embratel debt	1,134	
Other debt (maturing through 2008)	518	575
	24,896	30,210
Short-term debt and current maturities of long-term debt	(7,200)	(172)
	\$17,696	\$30,038

On June 8, 2001, we replaced our existing \$7 billion 364-Day Revolving Credit and Term Loan Agreement with two new credit facilities consisting of a \$2.65 billion 364-Day Revolving Credit Agreement (the "364-Day Facility") and a \$1.6 billion Revolving Credit Agreement (the "Multi-Year Facility"). The 364-Day Facility and the Multi-Year Facility, together with our existing \$3.75 billion Amended and Restated Facility A Revolving Credit Agreement (the "Existing Facility"), provide us with aggregate credit facilities of \$8 billion. These credit facilities provide liquidity support for our commercial paper program and for other general corporate purposes.

The Existing Facility and the Multi-Year Facility mature on June 30, 2002 and June 8,2006, respectively. The 364-Day Facility has a 364-day term, which may be extended for successive 364-day terms to the extent of the committed amounts from those lenders consenting thereto, with a requirement that lenders holding 51% of the committed amounts consent and **so** long as the final maturity date does not extend beyond June 8, 2006. Additionally, we may elect to convert the principal debt outstanding under the 364-Day Facility to a term loan maturing no later than one year after the conversion date, **so** long as the final maturity date does not extend beyond June 8, 2006. The Existing Facility is subject to annual commitment fees not to exceed 0.25% of any unborrowed portion of the facilities and the current commitment fee is 0.11%. The 364-Day Facility and the Multi-Year Facility are subject to annual facility fees not to exceed 0.20% or 0.25%, respectively, of the average daily commitment under each such facility (whether used or unused). The current commitment fee on the 364-Day Facility is 0.07% and the current commitment fee on the Multi-Year Facility is 0.09%.

(4) Long-Term Debt— (Continued)

The credit facilities bear interest payable in varying periods, depending on the interest period, not to exceed **six** months, or with respect to any Eurodollar Rate borrowing, 12 months if available to all lenders, at rates selected by **us** under the terms of the credit facilities, including a **Base** Rate or Eurodollar Rate, plus the applicable margin. The applicable margin for the Eurodollar Rate borrowing generally varies from 0.35% to 0.75% and is currently set at 0.35%, as to loans under the Existing Facility, from 0.29% to 0.80%, and is currently set at 0.33%, as to loans under the 364-Day Facility and 0.27% to 0.75%, and is currently set at 0.31%, as to loans under the Multi-Year Facility, in each case based upon our then current debt ratings.

The credit facilities are unsecured and require compliance with various covenants including a financial covenant based on the ratio of total debt to total book capitalization, which may not exceed 0.68 to 1.00, calculated on a consolidated basis. The credit facilities also require compliance with various operating covenants which, among other things, permit the following transactions so long as we are not in default thereunder:

- distributions to shareholders;
- the incurrence of additional indebtedness, except that newly secured debt or the total debt of the covered subsidiaries, cannot exceed 10% of the book value of the consolidated assets of WorldCom and the covered subsidiaries; and
- sales of assets in the ordinary course of business and additional sales if after such sales, the aggregate book value of all such assets sold during the term of the credit facilities does not exceed 20% of the book value of the consolidated assets of WorldCom and the covered subsidiaries.

As of the date of this filing, we were in compliance with these covenants.

On May 9, 2001, we completed the pricing of a public debt offering of approximately \$11.9 billion principal amount of debt securities, based on currency exchange rates on May 8, 2001. The net proceeds of \$11.7 billion have been or will be used for general corporate purposes, including the repayment of commercial paper and other debt payments as outlined below. The public debt offering consisted of the following series of notes:

	Principal Amount		Maturity	Interest Payable	First Interest Date
6.50% Notes due 2004	\$	1.5 billion	May 15, 2004	Semiannually	November 15, 2001
7.50% Notes due 2011 ,	\$	4.0 billion	May 15, 2011	Semiannually	November 15, 2001
8.25% Notes due 2031	\$	4.6 billion	May 15, 2031	Semiannually	November 15, 2001
6.75% Notes due 2008	€	1.25 billion	May 15, 2008	Annually	May 15, 2002
7.25% Notes due 2008	£	500 million	May 15,2008	Annually	May 15,2002

All of the notes, except for the 6.50% Notes due 2004 are redeemable, **as** a whole or in part, at our option, at any time or from time to time, at respective redemption prices equal to the greater of 100% of the principal amount of the notes to be redeemed or:

• In the case of the U.S. dollar notes, the sum of the present values of the Remaining Scheduled Payments, as defined therein, discounted, on a semiannual basis, assuming a

(4) Long-Term Debt— (Continued)

360-day year consisting of twelve 30-day months, at the Treasury Rate, as defined therein, plus:

- 30 basis points for the Notes due 2011, and
- 35 basis points for the Notes due 2031:
- In the case of the euro notes, the sum of the present values of the Remaining Scheduled Payments, as defined therein, discounted, on an annual basis (based on the actual number of days elapsed divided by 365 or 366, as the case may be), at the Reference Euro Dealer Rate, as defined therein, **plus** 25 basis points; and
- In the case of the sterling notes, the price expressed as a percentage (rounded to three decimal places, with .0005 being rounded up) at which the Gross Redemption Yield, as defined therein, on the outstanding principal amount of the notes on the Reference Date, as defined therein, is equal to the Gross Redemption Yield (determined by reference to the middle-market price) at 3:00 p.m. (London time) on that date on the Benchmark Gilt, as defined therein, plus 25 basis points:

plus, in the case of the U.S. dollar notes, the euro notes and the sterling notes, accrued interest to the date of redemption which has not been paid.

In connection with the Intermedia merger, we assumed Intermedia's outstanding debt including \$1.2 billion of senior discount notes with interest rates ranging from 11.25% to 12.5%, \$0.9 billion of senior notes with interest rates ranging from 8.5% to 9.5%, credit facility borrowings of \$258 million and other long-term debt including capital leases of \$0.6 billion. We repaid the Intermedia credit facility borrowings of \$258 million and subsequently terminated Intermedia's credit facility during the third quarter of 2001. Additionally, on September 28, 2001, we redeemed all of Intermedia's 12.5% senior discount notes for \$337 million. Cash balances were used to repay these amounts.

During the third and fourth quarters of 2001, \$1.5 billion of 6.125% senior notes matured, \$917 million of floating rate notes matured, we redeemed all of **our** outstanding 8.875% senior notes due 2006 for \$694 million, we retired \$1.1 billion of our outstanding debt through open market debt repurchases (including \$546 million of outstanding debt assumed in the Intermedia merger) and we redeemed all of our outstanding Series G preferred stock at par for \$200 million. Cash balances were used to repay these amounts.

(4) Long-Term Debt— (Continued)

The aggregate principal repayments and reductions required in each of the years ending December 31, 2002 through December 31, 2006 and thereafter **for** our long-term debt is **as** follows (in millions):

2002	\$	172
2003	1,	,749
2004		
2005		
2006	2,	643
Thereafter	20,	675
	\$30,	,210

Included in WorldCom long-term debt is a \$700 million 6.125% senior note due 2012, which is a remarketable instrument. On April 15, 2002, the underwriter has an option to remarket the note and we have the option to accept the remarketing, exchange the note for new 5, 7 or 10-year notes at prevailing interest rates or redeem the note for cash. Since the note matures in 2012, it is not included in our 2002 scheduled debt maturities of \$172 million.

Our senior debt is currently rated as follows:

Rating Agency	Rating	Outlook
Moody's Investors Service	A3	Under review
Standard & Poor's	BBB+	Negative
Fitch Ratings	BBB+	Stable

Any downgrade in rating will not trigger any events on our outstanding bond debt, although the cost of future bond offerings may increase. Our credit facilities contain ratings triggers affecting interest rates and our annual commitment fee, which are outlined above and are not liquidity triggers. Additionally, if WorldCom merges or consolidates with another corporation, the surviving corporation, after giving effect to the merger or consolidation, among other things, must have a then effective debt rating equal to or higher than Baa3 by Moody's and BBB- by Standard & Poor's. Further, our \$2 billion receivables purchase program contains rating triggers which reduce the availability under the program, and if we are rated less than Baa3 by Moody's and less than BBB- by Standard & Poor's, or if we are not rated by either agency, then the receivables purchase program is terminated. **Our** management frequently communicates with the rating agencies and currently believes that a downgrade below Baa3 or BBB- is not likely.

(5) Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiaries and Other Redeemable Preferred Securities—

In connection with the Intermedia merger, we issued the following series of preferred stock, which are mandatorily redeemable:

	Number of Preferred Shares Authorized.	Preferred Annual		Aggregate # of Shares Convertible at The Option of Holder		
	Issued and Outstanding	Per Preferred Share	Preferred Share	Depository Shares	WorldCom Group Shares	MCI Group Shares
Series D Junior Convertible preferred stock, par value \$0.01 per share	53,724	\$2,500	\$175	5,372,410	6,905,398	276,215
Series E Junior Convertible preferred stock, par value	,	. ,	\$175 \$175	, ,	, ,	,
\$0.01 per share	64,047	\$2,500	,	6,404,690	5,295,766	211,830
\$0.01 per share	79,600	\$2,500	\$175	7,960,000	4,729,649	189,185
share	200,000	\$1,000	\$ 70	n/a	5,555,555	222,222

On August 20, 2001, the holder of our Series G preferred stock exercised its right to require us to redeem all of the outstanding Series G preferred stock at par plus accrued dividends, or approximately \$200 million in the aggregate.

The Series D, E and F preferred stock are currently redeemable in whole or in part, at our option for cash plus accrued and unpaid dividends at rates commencing with 103%, declining to 100% in 2004 and thereafter for the Series D and E preferred stock and commencing with 104%. declining to 100% in 2005 and thereafter for the Series F preferred stock.

Dividends on the Series D, E and F preferred stock arc payable in cash or shares of our common stock, at our election on each July 15, October 15, January 15 and April 15. To date, we have paid these dividends in cash and we expect to continue to pay cash dividends on our Series D, E and F preferred stock.

The Series D, E and F preferred shareholders are generally entitled to one-tenth of a vote per share of Series D, E or F preferred stock on all matters voting together with the WorldCom common shareholders as a single class.

Redeemable Preferred Securities of Subsidiaries:

At the time of the Intermedia merger, Intermedia had outstanding Intermedia Series B Preferred Stock, and Digex had outstanding Series A Convertible Preferred Stock, or Digex Series A Preferred Stock, that remain outstanding subsequent to the Intermedia merger.

(5) Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiaries and Other Redeemable Preferred Securities — (Continued)

As of December 31, 2001, there were 568,455 shares of Intermedia Series B Preferred Stock outstanding. Dividends on the Intermedia Series B Preferred Stock accumulate at a rate of 13.5% of the aggregate liquidation preference thereof and are payable quarterly, in arrears. Dividends are payable in cash or, at Intermedia's option, by the issuance of additional shares of Intermedia Series B Preferred Stock having an aggregate liquidation preference equal to the amount of such dividends. Historically, Intermedia has paid the Intermedia Series B Preferred Stock dividend by the issuance of additional shares of Intermedia Series B Preferred Stock. The Intermedia Series B Preferred Stock is subject to mandatory redemption at its liquidation preference of \$1,000 per share, plus accumulated and unpaid dividends on March 31,2009. The Intermedia Series B Preferred Stock will be redeemable at the option of Intermedia at any time after March 31, 2002 at rates commencing with 106.75%, declining to 100% on March 31, 2007. Intermedia Series B Preferred Stock is generally entitled to one-tenth of one vote per share on all matters voting together with the common stock of Intermedia as a single class.

The Digex Series A Preferred Stock has an aggregate liquidation preference of \$100 million, and is convertible into approximately 1,462,000 shares of Class A Common Stock of Digex. The Digex Series A Preferred Stock does not pay dividends and there are no voting rights.

As of December 31, 2001, we also had \$750 million aggregate principal amount of 8% Cumulative Quarterly Income Preferred Securities, Series A, representing 30 million shares outstanding due June 30, 2026 and 475 shares of an authorized 500 shares of 6.375% cumulative preferred stock, Class A, or Class A Preferred Stock. Each share of Class A Preferred Stock has a par value of \$0.01 per share and a liquidation preference of \$100,000 per share. The Class A Preferred Stock is mandatorily redeemable at the redemption price of \$100,000 per share plus accumulated and unpaid dividends on January 1, 2019. Dividends on the Class A Preferred Stock are payable quarterly at a rate per annum equal to 6.375% of the liquidation preference of \$100,000 per share when, as and if declared.

(6) Preferred Stock—

In October 2001, we exercised our option to redeem all of our outstanding Series B Preferred Stock. Prior to the redemption date, substantially all of the holders of our Series B Preferred Stock elected to convert the preferred stock into 0.1460868 shares of WorldCom group stock and 0.005843472 shares of MCI group stock for each share of Series B Preferred Stock held.

In January 2000, each outstanding share of WorldCom Series C \$2.25 Cumulative Convertible Exchangeable Preferred Stock was redeemed by us for \$50.75 in cash, or approximately \$190 million in the aggregate.

(7) Shareholder Rights Plan-

On September 6, 2001, our preferred share purchase rights previously issued on August 25, 1996 expired. On March 7, 2002, our board of directors declared a dividend of one preferred share purchase right, or WorldCom group right, for each outstanding share of WorldCom group stock and one preferred share purchase right, or MCI group right, for each outstanding share of MCI group stock to shareholders of record on March 18, 2002. Each WorldCom group right entitles the holder to purchase

(7) Shareholder Rights Plan— (Continued)

from us one one-thousandth of a share of our Series 4 Junior Participating Preferred Stock, par value \$.01 per share, or Series 4 Preferred Stock, at an initial price of \$60.00 per one one-thousandth of a share of Series 4 Preferred Stock (the "Series 4 Purchase Price"), subject to adjustment. Each MCI group right entitles the holder to purchase from us one one-thousandth of a share of our Series 5 Junior Participating Preferred Stock, par value \$.01 per share, or Series 5 Preferred Stock, at an initial price of \$40.00 per one one-thousandth of a share of Series 5 Preferred Stock (the "Series 5 Purchase Price"), subject to adjustment.

The WorldCom group rights and MCI group rights generally will he exercisable only after the close of business on the tenth business day following the date of public announcement or the date on which we first have notice or determine that a person or group of affiliated or associated persons, which we refer to as an "Acquiring Person," other than WorldCom, any of our subsidiaries or any employee benefit plan of WorldCom, has acquired, or has obtained the right to acquire, 15% or more of the outstanding shares of voting stock of WorldCom without the prior express written consent of a majority of our independent directors, or after the close of business on the tenth business day (or such later day as a majority of our independent directors shall determine, but in no event later than the tenth business day after a person becomes an Acquiring Person) after the commencement of a tender offer or exchange offer, hy a person which, upon consummation, would result in such party's control of 15% or more of our voting stock. The WorldCom group rights and the MCI group rights will expire, if not previously exercised, exchanged or redeemed, on March 18, 2012.

If any person or group acquires 15% or more of our outstanding voting stock without the prior written consent of a majority of our independent directors, each WorldCom group right, except those held by such person or group, would entitle that holder to aquire such number of shares of WorldCom group stock as equals the result obtained by multiplying the then current Series 4 Purchase Price by the number of one one-thousandths of a share of Series 4 Preferred Stock for which a WorldCom group right is then exercisable and dividing that product hy 50% of the then current per-share market price of WorldCom group stock. If any person or group acquires 15% or more of our outstanding voting stock without the prior written consent of a majority of our independent directors, each MCI group right, except those held hy such person or group, would entitle that holder to acquire such number of shares of MCI group stock as equals the result obtained by multiplying the then current Series 5 Purchase Price by the number of one one-thousandths of a share of Series 5 Preferred Stock for which an MCI group right is then exercisable and dividing that product by 50% of the then current per-share market price of MCI group stock.

If any person or group acquires 15% or more, but less than 50%, of our outstanding voting stock without the prior written consent of a majority of our independent directors, each WorldCom group right and MCI group right, except those held by such persons or group, may he exchanged for one share of WorldCom group stock or MCI group stock, as applicable, if so determined by a majority of our independent directors.

If we were acquired in a merger or other business combination transaction where we are not the surviving corporation or where we are the surviving corporation, hut WorldCom group stock or MCI group stock is exchanged or changed for stock or other securities of any other person or for cash or other property, or where 50% or more of our assets or earnings power is sold in one or more transactions without the prior written consent of a majority of our independent directors, each

(7) Shareholder Rights Plan — (Continued)

WorldCom group right and MCI group right would entitle the holders thereof (except for the Acquiring Person) to receive such number of shares of the acquiring company's common stock as equals the result obtained by multiplying the then current Series 4 Purchase Price or Series 5 Purchase Price, as applicable, by the number of one one-thousandths of a share of Series 4 Preferred Stock or Series 5 Preferred Stock for which a WorldCom group right or MCI group right, as applicable, is then exercisable and dividing that product by 50% of the then current market price per share of the common stock of the acquiring company on the date of such merger, sale or other business combination transaction.

At any time prior to the time an Acquiring Person becomes such, a majority of our independent directors may redeem the WorldCom group rights and MCI group rights in whole, but not in part, at a price of \$.01 per right, or the "Redemption Price". The redemption of the WorldCom group rights and MCI group rights may be made effective at such time, on such basis and with such conditions as a majority of our independent directors in their sole discretion may establish. Immediately upon any redemption of the WorldCom group rights and MCI group rights, the right to exercise them will terminate and the only right of the holders will be to receive the Redemption Price.

The terms of the WorldCom group rights and MCI group rights may be amended by us without the consent of the holders of such rights, including an amendment to lower certain thresholds described above to not less than the greater of (i) any percentage greater than the largest percentage of the voting power of all securities of WorldCom then known to us to be beneficially owned by any person or group of affiliated or associated persons (other than WorldCom, our subsidiaries or any of our employee benefit plans) and (ii) 10%, except that from and after such time as any person or group of affiliated or associated persons becomes an Acquiring Person no such amendment may adversely affect the interests of the holders of the WorldCom group rights or MCI group rights.

(8) Leases and Other Commitments —

We lease office facilities and equipment under non-cancelable operating leases having initial or remaining terms of more than one year. Rental expense under these operating leases was \$323 million, \$392 million and \$517 million in 1999, 2000 and 2001, respectively. Rental expense in 2001 increased as a result of our movement of technical facilities closer to our customers which should result in lower access costs in the future, international expansion and to a lesser degree, the inclusion of Intermedia and annual rent escalation. We are also obligated under rights-of-way and franchise agreements with various entities for the use of their rights-of-way for the installation of our telecommunications systems.

(8) Leases and Other Commitments — (Continued)

At December 31, 2001, minimum lease payments under non-cancelable operating leases and commitments, other contractual commitments and capital leases were as follows (in millions):

Year	Office Facilities and Equipment and Other Contractual Commitments	Telecommunications Facilities	Rights-of-way	Total	Capital Leases
2002	\$ 556	\$ 778	\$ 45	\$1,379	\$ 140
2003	479	676	33	1,188	110
2004	481	491	32	1,004	113
2005	418	222	26	666	103
2006	350	218	23	591	108
Thereafter	3,211	330	284	3,825	1,003
Total	\$5,495	\$2,715	\$443	\$8,653	\$1,577
Less: imputed interest					(953)
					\$ 624

We have various facility leases that include renewal options, and most leases include provisions for rent escalation to reflect increased operating costs and/or require **us** to pay certain maintenance and utility costs. We also purchase special access circuits from traditional local phone companies under optional payment plans which are term and volume discounts off traditional local phone company standard pricing. At December 31, 2001, the remaining obligations associated with these discount plans are \$1.8 billion.

In October 1999, WorldCom and Electronic Data Systems Corporation, or EDS, finalized dual outsourcing agreements. Under these agreements, we outsource portions of our information technology, or IT, operations to EDS. EDS has assumed responsibility for our IT system operations at more than a dozen of our processing centers worldwide. The IT outsourcing agreement is represented by a 10-year contractual commitment with contractually specified minimums over the term of the contract. As of December 31, 2001, the contractual obligation associated with this contract is \$2.4 billion in the aggregate and has been included with Office Facilities and Equipment and Other Contractual Commitments in the table above.

Also included with Office Facilities and Equipment and Other Contractual Commitments in the table above are contractual commitments with traditional local phone companies who provide ports to us in co-located facilities, which we use for dial-up Internet access. As of December 31, 2001, the contractual commitment associated with these contracts was \$1.9 billion in the aggregate. During 2001, we were successful in the renegotiation of many of these contracts, at no cost, and as a result, the contractual commitment has been lowered by more than \$1.1 billion versus the comparable obligation in 2000.

As **of** December 31, 2001, our receivables purchase program consisted **of** a \$3.7 billion pool of receivables in which the purchaser owned an undivided interest, which includes the \$2.0 billion sold.

(9) Contingencies —

We are involved in legal and regulatory proceedings that are incidental to our business and have included **loss** contingencies in other current liabilities and other liabilities for these matters in our financial statements. In some instances, rulings by federal, state and international regulatory authorities may result in increased operating costs to **us.** The results of these various legal and regulatory matters are uncertain and could have a material adverse effect on our consolidated results of operations or financial position.

Regulation

We are subject to varying degrees of federal, state, local and international regulation. In the United States, our subsidiaries are most heavily regulated by the states, especially for the provision of local exchange services. Our subsidiaries must be certified separately in each state to offer local exchange and intrastate long distance services. No state, however, subjects us to rate of return regulation, nor are we currently required to obtain FCC authorization for installation or operation of our network facilities used for domestic services, other than licenses for specific multichannel multipoint distribution services, wireless communications service and terrestrial microwave and satellite earth station facilities that utilize radio frequency spectrum. FCC approval is required, however, for the installation and operation of our international facilities and services. We are subject to varying degrees of regulation in the foreign jurisdictions in which we conduct business, including authorization for the installation and operation of network facilities. Although the trend in federal, state and international regulation appears to favor increased competition, no assurance can be given that changes in current or future regulations adopted by the FCC, state or foreign regulators or legislative initiatives in the United States or abroad would not have a material adverse effect on us.

In August 1996, the FCC established nationwide rules pursuant to the Telecommunications Act of 1996, or the Telecom Act, designed to encourage new entrants to compete in local service markets through interconnection with the traditional local phone companies, resale of traditional local phone companies' retail services, and use **of** individual and combinations of unbundled network elements, owned by the traditional local phone companies. Unbundled network elements are defined in the Telecom Act as any "facility or equipment used in the provision of a telecommunication service," as well **as** "features, function, and capabilities that are provided hy means of such facility or equipment." In January 1999, the Supreme Court of the United States confirmed the FCC's authority to issue the rules, including a pricing methodology for unbundled network elements. On remand, the FCC clarified the requirement that traditional local phone companies make specific unbundled network elements available to new entrants, The traditional local phone companies have sought reconsideration of the FCC's order and have petitioned for review of the order in the United States Court of Appeals for the D.C. Circuit. That case is pending.

In its January 1999 decision, the Supreme Court remanded to the United States Court of Appeals for the Eighth Circuit various substantive questions concerning the FCC's rules for pricing unbundled network elements. In July 2000, the Eighth Circuit upheld the use of a forward-looking methodology but struck down the portion of the rule that calculates costs based on efficient technology and design choices. At the request of various parties, including **us**, the Supreme Court is reviewing the Eighth Circuit's decision. The Supreme Court heard oral argument in October 2001, and a ruling is expected in the first half of 2002.

(9) Contingencies — (Continued)

In December 1999, the FCC concluded that in providing high-speed digital subscriber line services, the incumbent local phone companies should be required to share primary telephone lines with competitive local exchange carriers, and the FCC identified the high frequency portion of the loop as a network element. In January 2001, the FCC clarified that the requirement to share lines applies to the entire loop, even where the traditional incumbent local phone company has deployed fiber in the loop. Under the order, the incumbent local phone companies must permit competing carriers to self-provision or partner with a data carrier in order to furnish voice and data service on the same line. The incumbent local phone companies have appealed these two rulings and we have intervened in support of the FCC.

In December 2001 and February 2002, the FCC issued a series of Notices of Proposed Rulemaking, seeking to streamline and simplify the requirements imposed on traditional local phone companies with respect to unbundled network elements, broadband Internet access, and advanced services. Comments are due during the spring of 2002, and decisions are expected before the end of 2002. WorldCom cannot predict the outcome of these proceedings. However, if regulations are streamlined or removed, there are elements and combinations of elements upon which WorldCom relies to provide local services, broadband and advanced services that might no longer be required as a matter of federal regulation.

The Telecom Act requires traditional local phone companies to petition the FCC for permission to offer long distance services for each state within their region. Under section 271 of the Telecom Act. for these applications to be granted, the FCC must find, among other things, that the traditional phone company has demonstrated that it has satisfied a 14-point competitive checklist to open its local network to competition and that granting the petition is in the public interest. To date, the FCC has rejected five traditional local phone company applications and it has granted ten: Verizon's for New York, Massachusetts, Connecticut, Pennsylvania and Rhode Island and SBC's for Texas, Kansas, Oklahoma, Missouri and Arkansas. WorldCom and other competitive carriers appealed to the D.C. Circuit the approvals for Kansas, Oklahoma and Massachusetts. On December 28, 2001, the D.C. Circuit decided that the FCC had not adequately addressed whether the prices charged for leasing network elements by SBC in Kansas and Oklahoma create a price squeeze which violated the standards for SBC to gain long distance approval. Without vacating the approval, the D.C. Circuit remanded the case to the FCC for it to address the price squeeze issue. A briefing schedule has not been established for the Massachusetts appeal. BellSouth has filed applications to offer long distance service for Georgia and Louisiana, and Verizon has filed applications for Vermont and New Jersey. Other applications may be filed at any time. We have challenged, and will continue to challenge, any application that does not satisfy the requirements of section 271 or the FCC's local competition rules. To date, these challenges have focused on the pricing of unbundled network elements and on the adequacy of the traditional local phone companies' operations support systems. In addition, legislation has been introduced in Congress that would have the effect of allowing traditional local phone companies to offer in-region long distance data services without satisfying section 271 of the Telecom Act and/or of making it more difficult for competitors to resell incumbent local phone company high-speed Internet access services or to lease the unbundled network elements used to provide these services. To date, WorldCom and others have successfully opposed these legislative initiatives.

In February 1999, the FCC issued a Declaratory Ruling and Notice of Proposed Rulemaking regarding the regulatory treatment of calls to Internet service providers. Prior to the FCC's order, over

(9) Contingencies — (Continued)

thirty state public utility commissions issued orders finding that carriers, including us, are entitled to collect reciprocal compensation for completing calls to Internet service providers under the terms of their interconnection agreements with traditional local phone companies. Many of these public utility commission decisions were appealed by the traditional local phone companies and, since the FCC's order, many traditional local phone companies have filed new cases at the public utility commissions or in court. We petitioned for review of the FCC's order in the D.C. Circuit, which vacated the order and remanded the case to the FCC for further proceedings. In April 2001, the FCC issued an Order on Remand and Report and Order asserting jurisdiction over calls to Internet service providers and establishing a three-year transitional scheme of decreasing reciprocal compensation rates. We filed a petition for review of the FCC's order with the D.C. Circuit, and the Court heard oral arguments on February 12, 2002.

It is possible that spectrum rights held may be disrupted by FCC decisions to re-allocate some or all of that spectrum to other services. If this re-allocation were to occur, we cannot predict whether current deployment plans for our multi-channel multipoint distribution service services will he sustainable.

Litigation

In November 2000, class action complaints were filed in the United States District Courts for the Southern District of Mississippi, the Southern District of New York, and the District of Columbia against WorldCom and some of our executive officers. All of these actions were consolidated in the Southern District of Mississippi on March 27, 2001, along with another purported class action lawsuit filed on hehalf of individuals who purchased stock in Intermedia between September 5 and November 1, 2000, which action asserts substantially similar claims and alleges that after the announcement of the WorldCom-Intermedia merger, the price of Intermedia stock was tied to the price of WorldCom stock. On June 1,2001, the plaintiffs filed a consolidated amended complaint. Among other things, the consolidated amended complaint alleged that statements regarding WorldCom's revenues, the integration of MCI, the success of UUNET Technologies, and the expansion of WorldCom's network were false; WorldCom's financial disclosures were false; and WorldCom's announcement of its "generation d" initiative was misleading. Based on these allegations, the consolidated amended complaint asserts claims fur violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule lob-5 promulgated thereunder and Section 20(a) of the Securities Exchange Act of 1934. The consolidated amended complaint seeks to certify a class of persons who purchased WorldCom shares between February 10,2000 and November 1, 2000, inclusive; it does not assert separate claims on behalf of purchasers of Intermedia shares. On August 7, 2001, WorldCom and the individual defendants filed a motion to dismiss the consolidated amended complaint in its entirety. We believe that the factual allegations and legal claims asserted in the consolidated amended complaint are without merit and intend to defend them vigorously.

In August 1997, three complaints were filed in the United States District Court for the District of Columbia, as class actions on hehalf of purchasers of MCI shares. The three cases were consolidated on April 1, 1998. On or about May 8, 1998, the plaintiffs in all three cases filed a consolidated amended complaint alleging, on behalf of purchasers of MCI's shares between July 11, 1997 and August 21, 1997, inclusive, that MCI and some of its officers and directors failed to disclose material information about MCI, including that MCI was renegotiating the terms of the MCI BT merger

(9) Contingencies — (Continued)

agreement. The consolidated amended complaint seeks damages and other relief. WorldCom and the other defendants have moved to dismiss the consolidated amended complaint.

(10) Employee Benefit Plans —

Stock Option Plans:

Effective with our recapitalization, each outstanding stock option under our existing stock option plans was converted into a stock option to acquire shares of WorldCom group stock having the same terms and conditions, except that the exercise price and the number of shares issuable upon exercise were divided and multiplied, respectively, by 1.0319. The following information reflects this conversion ratio. We do not maintain a plan for the issuance of MCI group stock options. We have several stock option plans under which options to acquire up to 919 million shares of WorldCom group stock may be granted to directors, officers and employees of WorldCom including the stock option plans acquired through various acquisitions. **As** of December 31, 1999, 2000 and 2001, outstanding options and warrants to acquire 101 million, 137 million and 202 million shares, respectively, were exercisable. We account for these plans under APB Opinion No. 25, under which no compensation cost is recognized. Terms and conditions of our options, including exercise price and the period in which options are exercisable, generally arc at the discretion of the Compensation and Stock Option Committee of our board of directors; however, no options are exercisable for more than 10 years after date of grant. As of December 31,2001, 586 million options had been granted under these plans.

Additionally, there are outstanding warrants to acquire 2.4 million shares of WorldCom group stock at prices ranging from \$20.75 to \$45.00 per share which were granted by acquired entities prior to their merger with WorldCom.

Additional information regarding options and warrants granted and outstanding is summarized below (in millions, except per share data):

	Number of Options and Warrants	Weighted. Average Exercise Price
Balance, December 31, 1998	254	\$16.40
Granted to employees/directors	157	45.17
Exercised · · · · · · · · · · · · · · · · · · ·	(63)	14.84
Expired or canceled	<u>(19</u>)	29.92
Balance, December 31, 1999	329	29.63
Granted to employees/directors	112	42.73
Exercised	(38)	15.14
Expired or canceled	(47)	40.27
Balance, December 31, 2000	356	33.95
Assumed in connection with acquisitions	10	24.59
Granted to employees/directors	91	15.63
Exercised · · · · · · · · · · · · · · · · · · ·	(10)	10.74
Expired or canceled · · · · · · · · · · · · · · · · · · ·	(44)	37.79
Balance, December 31, 2001	403	\$29.83

(10) Employee Benefit Plans— (Continued)

Options and warrants to purchase 1 million, 323 million and 370 million shares of WorldCom group stock, were outstanding as of December 31, 1999, 2000 and 2001, respectively, with an exercise price in excess of the respective year end closing market price for WorldCom group stock.

The following table summarizes information about the WorldCom group options and warrants outstanding at December 31, 2001:

Options and Warrants Outstanding			Options and Warrants Exercisable		
Range of Exercise Prices	Number Outstanding (In Millions)	Remaining Contractual Life (Years)	Weighted- Average Exercise Price	Number Outstanding (In Millions)	Weighted- Average Exercise Price
\$ 0.01 - 16.81	149	6.9	\$14.45	60	\$12.84
16.82 - 33.61	60	5.7	22.11	55	23.89
33.62 - 50.42	193	6.9	43.96	86	44.26
50.43 - 84.03	I	5.3	56.60	1	56.34
	403			202	

SFAS No. 123, 'Accounting for Stock-Based Compensation", requires disclosure of the compensation cost for stock-based incentives granted after January 1, 1995 based on the fair value at grant date for awards. Applying SFAS No. 123 to the WorldCom group would result in net income and earnings per share, or EPS, amounts as follows (in millions, except share data):

		1999	2000	2001
Net income attributed to WorldCom group before cumulative				
effect of accounting change	As reported	\$ 2,294	\$ 2,608	\$1,407
	With 123	1,795	1,844	600
Basic EPS	As reported	0.81	0.91	0.48
	With 123	0.64	0.64	0.21
Diluted EPS	As reported	0.78	0.90	0.48
	With 123	0.61	0.63	0.20

The fair value of each option is estimated on the date of grant using an option-pricing model with the following weighted-average assumptions used for grant:

Waighted

Date Granted	Expected Volatility	Risk-free Interest Rate	Average Grant- Date Fair Value
1999	26.8%	5.2%	\$14.91
2000	30.2%	6.3%	\$16.79
2001	39.7%	4.7%	\$ 6.53

Additionally, for all options, a 15% forfeiture rate was assumed with an expected life of **5** years and no dividend yield.

401(k) Plans:

WorldCom and its subsidiaries offer our qualified employees the opportunity to participate in one of our defined contribution retirement plans qualifying under the provisions of Section 401(k) of the Internal Revenue Code, or the Code. Each employee may contribute on a tax deferred basis a portion of annual earnings not tu exceed \$10,500. We match individual employee contributions in selected

(10) Employee Benefit Plans — (Continued)

plans, up to a maximum level which in no case exceeds 6% of the employee's compensation. Expenses recorded by us relating to our 401(k) plans were \$108 million, \$112 million and \$103 million for the years ended December 31, 1999, 2000 and 2001, respectively.

Employee Stock Purchase Plan:

Effective July 1, 2001, we established the MCI group 2001 Employee Stock Purchase Plan under Section 423 of the Code which allows eligible MCI group employees to purchase shares of MCI group stock through payroll deductions not to exceed 15% of the employee's compensation. The purchase price is 85% **a** the lower of the fair market value of MCI group stock on the participant's enrollment date or the exercise date. A maximum of 10 million shares of MCI group stock are authorized for issuance. During 2001 shares totaling 346,000 were issued at an average price **a** \$13.10 per share.

(11) Pension and Other Post-retirement Benefit Plans—

We maintain a noncontributory defined benefit pension plan, or MCI Plan, and a supplemental pension plan, or the Supplemental Plan, and WorldCom International Data Services, Inc., a subsidiary of MCI, has a defined benefit pension plan. Collectively, these plans cover substantially all MCI employees who became WorldCom employees as a result of the merger with MCI and who work 1,000 hours or more in a year. Effective January 1, 1999, no future compensation credits are earned by participants of the MCI Plan.

Annual service cost is determined using the Projected Unit Credit actuarial method, and prior service cost is amortized on a straight-line basis over the average remaining service period **of** employees. As of December 31, 2000, the fair value of MCI Plan assets exceeded the MCI Plan accumulated benefit obligation by \$42 million. **As** of December 31, 2001, the accumulated benefit obligation exceeded the fair value of the plan assets by \$21 million. There is no additional minimum pension liability required to be recognized.

Additionally, Embratel sponsors a contributory defined benefit pension plan and a post-retirement benefit plan. Annual service cost is determined using the projected unit credit actuarial method. Approximately 95% of Embratel's full-time employees arc covered by these plans. The defined benefit pension plan had a fair value of assets in excess of accumulated benefit obligation of \$3 million at December 31, 2000. There is no additional minimum pension liability to be recognized.

In April 1999, we completed the sale of MCI Systemhouse Corp. and SHL Systemhouse Co. to EDS for \$1.6 billion resulting in a settlement gain of \$24 million and benefit payments of \$80 million.

The following table sets forth information for the MCI pension plans and, for the year ended December 31, 2000, the Embratel defined benefit pension and post-retirement plans' assets and obligations (in millions):

(11)Pension and Other Post-retirement Benefit Plans — (Continued)

(11)1 chaion and other rost retirement benefit rians (continued)		Embrate	l Plane
	MCI Pension Plans	Pension Benefits	Other Benefits
Change in Benefit Obligation Benefit obligation at Janualy 1. 2000	\$476	\$349	\$109
Service cost	· —	.1	
Interest cost	35 8	37 29	12 8
Benefits paid	(59)	(30)	(4)
Foreign currency exchange	`	(32)	(Ì0)
Plan amendments	4 3		_
Assumption change		354	115
Benefit obligation at December 31, 2000	467 32	334 *	*
Actuarial gain	(1)	*	*
Benefits paid	(45)	*	*
Assumption change	2'		*
Benefit obligation at December 31, 2001	\$455		
Change in Plan Assets Fair value of assets at January 1,2000	\$565	\$361	\$ 29
Actual return on plan assets	36	\$301 57	5
Foreign currency exchange	-	(31)	(2)
Benefits paid	<u>(59)</u>	(30)	(4)
Fair value of assets at December 31, 2000	542 (8)	357	28
Actual return on plan assets	(6) (45)		
Effect of settlement/transfers	(27)	*	
Fair value of assets at December 31, 2001	\$462		*
As of December 31, 2001:			
Funded status	\$ 7 (17)		*
Unamortized prior service cost	6		*
Accrued benefit cost	\$ (4)	*	*
Weighted-average actuarial assumptions:	<u>* (*)</u>		
Discount rate	7.25%		*
Expected return on plan assets	9.00%		*
Rate of compensation increase	N/A		¥
As of December 31,2000 Funded status	\$75	\$ 3	\$(87)
Unrecognized net actuaria! (gain) loss Unamortized prior service cost	(102)	(60)	44
Unamortized prior service cost Unrecognized transition liability	7		
Accrued benefit cost	<u>=</u> \$(20)	$\frac{2}{\$(55)}$	= \$(43)
	φ (2·0)	"(33)	# (- -2)
Weighted-average actuarial assumptions: Discount rate	7.50%	6.00%	6.00%
Expected return on plan assets	9.00%	9.00%	9.00%
Rate of compensation increase	N/A	N/A	NIA

Information is not provided as a result of the Embratel deconsolidation effective January 1,2001.

(11)Pension and Other Post-retirement Benefit Plans — (Continued)

The components of the net post-retirement benefit and pension costs for the years ended December 31, 1999, 2000 and 2001 are as follows (in millions):

	1999			2000			2001
	MCI Embratel MCI		MCI	Embratel		MCI	
	Pension Plans	Pension Benefits	Other Benefits	Pension Plans	Pension Benefits	Pension Benefits	Other Plans
Service cost	\$ 1	\$ 1	\$ -	\$ —	\$ —	\$	\$
Interest cost on accumulated post-							
retirement benefit obligation	36	17	5	35	35	11	32
Expected return on plan assets	(50)	(25)	(2)	(49)	(46)	(4)	(44)
Amortization of transition obligation		(2)	_		_	_	1
Amortization of net loss (gain)	(4)		1	(10)	(2)	2	(5)
Net periodic post-retirement benefit cost.	\$ (17)	<u>\$ (9)</u>	<u>\$.4</u>	<u>\$ (24)</u>	<u>\$ (13)</u>	<u>\$ 9</u>	<u>\$ (16)</u>
(10) I T							

(12) Income Taxes—

The provision for income taxes is composed of the following (in millions):

	1	999	2000	_ 2	2001
Current	\$	62	\$1,376	\$	(177)
Deferred	2	,903	_1,649	1	1,104
Total provision for income taxes	\$2	,965	\$3,025	\$	927

The following is a reconciliation of the provision for income taxes to the expected amounts using the statutory rate:

	1999	2000	2001
Expected statutory amount	35.0%	35.0%	35.0%
Nondeductible amortization of excess of cost over net			
tangible assets acquired	5.2	5.0	13.7
State income taxes	2.5	2.6	(5.0)
Valuation allowance	(1.5)	_	_
Tax credits	(0.2)	(0.4)	(2.9)
Other	0.4	(2.2)	(2.1)
Actual tax provision	41.4%	40.0%	38.7%

(12) Income Taxes— (Continued)

The following is a summary of the significant components of our deferred tax assets and liabilities as of December 31, 2000 and 2001 (in millions):

	2000				001	
	Assets		Liabilities	As	sets	Liabilities
Fixed assets	\$	_	\$(4,779)	\$	_	\$(5,580)
Goodwill and other intangibles		_	(122)		_	(11)
Investments		363	_		392	
Other assets			(264)			(423)
Accrued liabilities		643	_		394	
NOL carryforwards		517		1	,315	
Tax credits		760	_		686	
Other			(366)			(123)
	2	,283	(5,531)	2	,787	(6,137)
Valuation allowance	((191)		((465)	
	\$2	,092	<u>\$(5,531)</u>	\$2	,322	\$(6,137)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes and the impact of available net operating loss, or NOL, carryforwards.

At December 31, 2001, we had unused NOL carryforwards for federal income tax purposes of approximately \$3.4 billion which expire in various amounts during the years 2011 through 2021. These NOL carryforwards result in a deferred tax asset of approximately \$1.3 billion at December 31, 2001.

Approximately \$1.7 billion of NOL carryforwards for federal income tax purposes relate to preacquisition NOL carryforwards attributable to entities acquired in transactions accounted for as purchases. These carryforwards and other deferred tax assets result in deferred tax assets for which a valuation allowance of \$433 million has been established. If subsequent events or conditions dictate an increase in the need for a valuation allowance attributable to such deferred tax assets, the income tax expense for that period will be increased accordingly.

In addition, at December 31, 2001 we have unused NOL carryforwards of \$85 million outside the United States which generally do not expire. These carryforwards result in a \$32 million deferred tax asset for which a valuation allowance has been established.

(13) Supplemental Disclosure of Cash Flow Information—

Interest paid by us during the years ended December 31, 1999, 2000 and 2001 amounted to \$1.3 billion, \$1.1 billion and \$1.4 billion, respectively. Income taxes paid, net of refunds, during the years ended December 31, 1999, 2000 and 2001 were \$106 million, \$452 million and \$148 million, respectively.

(13) Supplemental Disclosure of Cash Flow Information — (Continued)

In conjunction with business combinations during the years ended December 31, 1999, 2000 and 2001, assets acquired, liabilities assumed and common stock issued were as follows (in millions):

	1999	2000	2001
Fair value of assets acquired	\$ 62	\$ -	\$ 1,932
Goodwill and other intangible assets	2,231	43	5,102
Liabilities assumed	(987)	(29)	(4,201) $(1,361)$
Preferred stock issued or assumed	· 		(1,361)
Common stock issued	(228)		(1,266)
Net cash paid	\$1,078	<u>\$ 14</u>	\$ 206

(14) Segment and Geographic Information—

Based on our organizational structure, we operate in six reportable segments: Commercial voice, data and Internet; International operations; Consumer; Wholesale; Alternative channels and small business; and Dial-up Internet. Our reportable segments represent business units that primarily offer similar products and services; however, the business units are managed separately due to the type and class of customer as well as the geographic dispersion of their operations. The Commercial voice, data and Internet segment includes voice, data and other types of domestic communications services for commercial customers, and Internet services including dedicated access and web and application hosting services. International operations provide voice, data, Internet and other similar types of communications services to customers primarily in Europe and the Asia Pacific region. Consumer includes domestic voice communications services for consumer customers. Wholesale includes voice and data domestic communications services for wholesale customers. Alternative channels and small business includes domestic long distance voice and data, agents, prepaid calling cards and paging services provided to alternative wholesale and small business customers. Dial-up Internet includes dial-up Internet access services.

Our chief operating decision-maker utilizes revenue information in assessing performance and making overall operating decisions and resource allocations. Communications services are generally provided utilizing our fiber optic networks, which do not make a distinction between the types of services provided. Profit and loss information for WorldCom, the WorldCom group and the MCI group is reported only on a consolidated basis to the chief operating decision-maker and our board of directors.

(14) Segment and Geographic Information— (Continued)

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Information about our segments is as follows (in millions):

	Revenues From External Customers			Sellin Ad	Selling, General and Administrative			Capital Expendit		
	1999	2000	2001	1999	2000	2001	1999	2000	2001	
Voice, data and Internet	\$14,817	\$16,880	\$18,371	\$2,655	\$ 3,209	3,895	\$5,532	8,376	\$6,505	
International operations	1,624	2,361	2,977	774	1,094	1,409	1,494	1,754	1,114	
Consumer	7.590	7,778	7,227	3,215	2,823	2,968	235	146	89	
Wholesale	3,943	3,388	2,641	620	538	617	192	94	32	
Alternative channels and small business	3,142	3,541	2,427	808	1,030	1,092	182	75	109	
Did-up Intemet	1,497	1,628	1,536	368	426	537	178	185	37	
Corporate—other charges		_	_	*****	778	588	_			
Other.,	523	_		170	_	_	10	_	_	
Elimination of intergroup expenses				(331)	(254)	(360)) <u> </u>			
Total before Embratel	33,136	35,582	35,179	8,339	9,644	11,046	7,823	10,630	7,886	
Embratel	2,854	3,662	_	610	980	_	893	854	_	
Elimination of intersegment revenue/										
expenses	(82)	(154)		(14)	(27)	_	_	4		
Total	\$35,908	\$39,090	\$35,179	\$8,935	\$10,597	\$11,046	\$8,716	\$11 <u>,484</u>	<u>\$7,886</u>	

As discussed in Note 1, we deconsolidated our investment in Embratel as of January 1, 2001. Embratel, which provides communications services in Brazil, was designated as a separate reportable segment for periods prior to January 1, 2001. Accordingly, we have included Embratel in our segment information presented for 1999 and 2000. Additionally, Other includes the operations of MCI Systemhouse Corp. and SHL Systemhouse Co., which was sold to EDS in April 1999.

See Note 17 for a reconciliation of the WorldCom group's and the MCI group's operating results to our consolidated results of operations.

Information about our operations by geographic areas are as follows (in millions):

	1999		2000		2001	
	Revenues	Long-lived Assets	Revenues	Long-lived Assets	Revenues	Long-lived Assets
United States	\$30,721	\$21,965	\$32,177	\$29,816	\$31,428	\$34,799
Brazil	2,772	4,017	3,508	4,008	_	
All other international	2,415	2,636	3,405	3,599	3,751	4,010
Total	\$35,908	\$28,618	\$39,090	\$37,423	\$35,179	\$38,809

(15) Unaudited Quarterly Financial Data—

	Quarter Ended							
	Marc	h 31,	June 30, Septem			ptember 30, Dece		ber 31,
	2000	2001	2000	2001	2000	2001	2000	2001
			(in mill	ions, exce	pt per sha	re data)		
Revenues	\$9,612	\$8,825	\$9,807	\$8,910	\$10.037	\$8,966	\$9,634	\$8,478
Operating income	2,424	1,197	2,387	384	1,852	1,180	1,490	753
Income before cumulative effect of								
accounting change	1,288	610	1,273	97	951	536	726	258
Net income	1,203	610	1,273	97	951	536	726	258
Distributions on mandatorily redeemable								
preferred securities and other preferred								
dividend requirements	17	16	16	16	16	43	16	42
Income (loss) before cumulative effect of								
accounting change attributed to:								
WorldCom group	741	548			599		601	347
MCI group	547	62	541	(29)	352	33	125	(89)
Income (loss) per share before								
cumulative effect of accounting change:								
WorldCom g r o u p								
Basic	0.25	0.18			0.20			0.10
Diluted	0.25	0.18	0.25	0.04	0.20	0.16	0.20	0.10
MCI group								
Basic	4.80	0.54		,			1.09	,
Diluted	4.80	0.54	4.75	(0.25)	3.06	0.28	1.09	(0.75)

(16) Related Party Transactions-

We have entered into certain loan and guaranty arrangements involving Bernard J. Ebbers, WorldCom's President and Chief Executive Officer, principally relating to certain obligations to financial institutions secured by Mr. Ebbers' stock in WorldCom. Following recent declines in the closing price of the WorldCom group stock, the outstanding debt covered by the WorldCom guaranty in favor of Bank of America, N.A., or Bank of America, has been repaid and we have deposited with Bank of America approximately \$35 million to collateralize a letter of credit used to support financing for which Mr. Ebbers is obligated. The underlying letter of credit is scheduled to expire on February 15, 2003, subject to renewal, extension or substitution.

WorldCom made aggregate payments of approximately \$198.7 million to Bank of America pursuant to the guaranty, in addition to the deposit collateralizing the letter of credit. That amount, together with any amounts paid or costs incurred by **us** in connection with the letter of credit, plus accrued interest at a floating rate equal to that under one of our credit facilities, is payable by Mr. Ebbers to **us** on demand. The amount of such interest accrued through February 28, 2002, **is** approximately \$875,000 and the interest rate as of that date was 2.15% per annum.

In addition to the guaranty arrangements, we have also agreed to loan up to \$165 million in principal amount to **Mr**. Ebbers. These loans are payable on demand and bear interest at floating rates equal to that under certain of our credit facilities. **As** of February 28, 2002, the aggregate principal amount of indebtedness owed by Mr. Ebbers to us under these **loans** was approximately \$144.3 million.

(16) Related Party Transactions— (Continued)

Accrued interest on these loans is approximately \$5.5 million through February 28,2002, at interest rates ranging from 2.14% to 2.16% per annum as of that date.

We have been advised that Mr. Ebbers has used, or plans to use, the proceeds of the loans from WorldCom principally to repay certain indebtedness under loans secured by shares of our stock owned by him and that the proceeds of such secured loans were used for private business purposes. The loans and guaranty by WorldCom were made following a determination that they were in the best interests of WorldCom and our shareholders in order to avoid additional forced sales of Mr. Ebbers' stock in WorldCom. The determination was made by our Compensation and Stock Option Committee as a result of the pressure on our stock price, margin calls faced by Mr. Ebbers and other considerations. Such actions were ratified and approved by our board of directors.

In connection with the transactions described above, and subject to certain limitations, and effective upon termination of restrictions under existing lending agreements, Mr. Ebbers pledged to WorldCom the shares of our stock owned by him with respect to his obligations under the loans and guaranty from WorldCom. The pledge of certain of those shares is subordinated to the prior rights of other lenders and is not currently perfected. Mr. Ebbers also agreed to indemnify WorldCom for any amounts expended or losses, damages, costs, claims or expenses incurred under the guaranty or the loans from WorldCom and has provided information demonstrating that his assets are sufficient to cover his outstanding obligations to us.

(17) Consolidating Information —

Below is the consolidating financial information of the WorldCom group and the MCI group. The financial information reflects the businesses attributed to the WorldCom group and the MCI group including the allocation of revenues and expenses between the WorldCom group and the MCI group in accordance with our allocation policies.

The attribution of the assets, liabilities, equity, revenues and expenses for each group, as reflected in our consolidated financial statements, which are consolidated in accordance with accounting principles generally accepted in the United States, is primarily based on specific identification of the businesses included in each group. Where specific identification was impractical, other methods and criteria were used that our management believes are equitable and provide a reasonable estimate of the assets, liabilities, equity, revenues and expenses attributable to each group. Our shared corporate services and related balance sheet amounts (such as executive management, human resources, legal, regulatory, accounting, tax, treasury, strategic planning and information systems support) have been attributed to the WorldCom group or the MCI group based upon identification of such services specifically benefiting each group. Where determinations based on specific usage alone are impractical, other methods and criteria were used that our management believes are equitable and provide a reasonable estimate of the cost attributable to each group.

Our board of directors or any special committee appointed by the board of directors may, without shareholder approval, change the polices set forth in our tracking stock policy statement. Our board of directors or any special committee appointed by the board of directors also may, without shareholder approval, adopt additional policies or make exceptions with respect to the application of the policies described in our tracking stock policy statement in connection with particular facts and circumstances, all as they may determine to be in our best interests as a whole.

WORLDCOM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) DECEMBER 31,2001

(17) Consolidating Information — (Continued)

CONSOLIDATING STATEMENT OF OPERATIONS (In Millions)

	Year Ended December 31, 1999					
	WorldCom Gmup	MCI Gmnp	Eliminations	Worldcorn		
Revenues	\$19,736	\$16,112	<u> </u>	\$35,908		
Operating expenses:						
Line costs:						
Attributed costs (1)	7,841	6,898		14,139		
Intergroup allocated expenses (2)	64	189	(253)	_		
Attributed costs (1)	2,594	3,113	3,228	8,935		
Shared corporate services (3)	1.601	1.627	(3,228)			
Other intergroup allocated expenses (4) Depreciation and amortization:		331	(331)			
Attributed costs (1)	3,533	821		4,354		
Intergroup allocated expenses (5)	(520)	(64)	584			
Other charges	(8)	`	_	(8)		
Total	15,105	12,915		28,020		
Operating income	4,631	3,251		1,888		
Interest expense	(460)	(506)	_	(966)		
Miscellaneous income	(460) 237	5		242		
Income before income taxes and minority interests	4,408	2,156		1,164		
Provision for income taxes	1,856	1,109		2.965		
Income before minority interests	2,552	1,641	*****	4,199		
Minority interests	(186)	´—		(186)		
Net income before distributions on mandatorily redeemable preferred securities	2,366	1,641		4,013		
Distributions on mandatorily redeemable preferred securities and other preferred dividend requirements	72	1,041		72		
•						
Net income	\$ 2,294	\$ 1,647	<u> </u>	\$ 3,941		

⁽¹⁾ Attributed costs represent costs directly incurred by or attributed to the WorldCom group and the MCI group and do not include any intergroup allocations.

⁽²⁾ The WorldCom group was allocated \$64 million for its usage of our business voice switches, which have been attributed to the MCI group, and the MCI group was allocated \$189 million for its usage of our fiber optic systems, which have been attributed to the WorldCom group.

⁽³⁾ Our shared corporate services (such as executive management, human resources, legal, regulatory, accounting and tax, treasury, strategic planning and information systems support) have been allocated to the WorldCom group and the MCI group in the amounts of \$1.6 billion and \$1.6 billion, respectively.

⁽⁴⁾ The MCI group was allocated \$303 million of costs related to its use of buildings, furniture and fixtures and \$28 million for use of the MCI tradenames, which assets have been attributed to the WorldCom group.

⁽⁵⁾ A credit of \$492 million and \$64 million to depreciation expense has been recorded by the WorldCom group and the MCI group, respectively, to reflect the allocation of a portion of the applicable costs for the use by the WorldCom group of the business voice switches attributed to the MCI group, and the proportionate use by the MCI group of the fiber optic systems and buildings, furniture and fixtures attributed to the WorldCom group. Additionally, a credit of \$28 million to amortization expense has been recorded by the WorldCom group to reflect the charge to the MCI group for use of the MCI tradenames.

(17) Consolidating Information — (Continued)

CONSOLIDATING STATEMENT OF CASH FLOWS (In millions)

	7	Year Ended December 31,1999					
	Worldcorn Group	MCI Group	Eliminations	WorldCom			
Cash flows from operating activities:							
Net income	\$ 2,366	\$ 1,647	\$ <u> </u>	\$ 4,013			
provided by operating activities	4,986	2,006		6,992			
Net cash provided by operating activities	7,352	3,653		11,005			
Cash flows from investing activities:							
Capital expenditures	(7,929)	(787)	_	(8,716)			
Acquisitions and related costs	(786)	(292)		(1,078)			
All other investing activities, net	670	(431)		239			
Net cash used in investing activities	(8,045)	(1,510)		(9,555)			
Cash flows from financing activities:							
Principal repayments on debt, net	(2,894)			(2,894)			
Attributed stock activity of Worldcorn, Inc	886	_	_	886			
Intergroup advances, net	2,097	(2,097)		·			
All other financing activities, net	(72)			(72)			
Net cash provided by (used in) financing activities	17	(2,097)	surfree/resth	(2,080)			
Effect of exchange rate changes on cash	(221)			(221)			
Net increase (decrease) in cash and cash equivalents	(897)	46	********	(851)			
Cash and cash equivalents beginning of period	1,703	24		1,727			
Cash and cash equivalents end of period	\$ 806	\$ 70	\$ —	\$ 876			

(17) Consolidating Information — (Continued)

CONSOLIDATING BALANCE SHEET (In millions)

	at December 31. 2000					
	WorldCom Group	MCI Group	Eliminations(1)	Worldcorn		
Current assets	\$ 8,092	\$ 2,312	\$ (649)	\$ 9,755		
Property and equipment, net	35,177	2,246	-	37,423		
Goodwill and other intangibles	36,685	9,909	 :	46,594		
Other assets	5,939	168	<u>(976)</u>	<u>5,131</u>		
Total assets	\$85,893	\$14,635	\$(1,625)	\$98,903		
Current liabilities	\$14,213	\$ 4,109	\$ (649)	\$17,673		
Long-term debt	11,696	6,000		17,696		
Noncurrent liabilities	3,648	2,063	(9 7 6)	4,735		
Minority interests	2,592	_		2,592		
Company obligated mandatorily redeemable preferred						
securities	798	_		798		
Shareholders' investment	52,946	2,463		55,409		
Total liabilities and shareholders' investment	\$85,893	\$14,635	\$(1 <u>.625</u>)	\$98,903		

⁽¹⁾ Represents the elimination of intergroup receivables and payables associated with other intergroup allocations between the WorldCom group and the MCI group. The WorldCom group had a net receivable from the MCI group (and the MCI group had a corresponding net payable to the WorldCom group) of \$1.6 billion, of which \$649 million was classified as current with the remainder classified as long-term.

(17) Consolidating Information—(Continued)

CONSOLIDATING STATEMENT OF OPERATIONS (In millions)

	Year Ended December 31, 2000				
	Worldcorn Gmup	MCI Gmup	Eliminations	Worldcorn	
Revenues	\$22,755	\$16,335	\$ -	\$39,090	
Operating expenses:					
Line costs:	0.050	6 904		45 400	
Attrihutcd costs (1)	8,658 87	6,804 373	(460)	15,462	
Selling, general and administrative:	O1	3/3	(400)		
Attributed costs (1)	3,682	2,981 1,927	3,934 (3,934)	10,597	
Shared wroorate services (3)	2,007	,	,		
Other intergroup allocated expenses (4)		254	(254)		
Attributed costs (1)	3.907	971		4,878	
Intergroup allocated expenses (5)	(627)	(87)	714	´ 	
Total	17,714	13,223	_	30,937	
Operating income	5,041	3,112		8,153	
Interest expense	(458)	(512)	_	(970)	
Miscellaneous income	385			385	
Income before income taxes, minority interests and cumulative effect	4.000	0.000		7.500	
of accounling change. Provision for income taxes.	4,968 1,990	2,600 1,035		7,568 3,025	
Income before minority interests and cumulative effect of accounting		1,000		- 0,020	
change	2.978	1,565	_	4,543	
change Minority interests.	(305)	-,		(305)	
Income before cumulative effect of accounting change	2,673	1,565		4,238	
Cumulative effect of acwunting change	(75)	(10)		(85)	
Net income before distributions on mandatorily redeemable					
preferred securities	2,598	1,555		4,153	
other preferred dividend requirements	65	_		65	
NT ·		¢ 1555	<u>s</u> —	\$ 4,088	
Net income	\$ 2.533	\$ 1,555	ъ —	₩ 4,000 =======	

Attributed costs represent costs directly incurred by or attributed to the WorldCom group and the MCI group

and do not include any intergroup allocations.

The WorldCom group was allocated \$87 million for its usage of our business voice switches, which have been attributed to the MCI group, and the MCI group was allocated \$373 million for its usage of our fiber optic systems, which have been attributed to the WorldCom group.

(3) Our shared corporate services (such as executive management, human resources, legal, regulatory, accounting and tax, treasury, strategic planning and information systems support) have heen allocated to the WorldCom group and the MCI group in the amounts of \$2.0 billion and \$1.9 billion, respectively.
(4) The MCI group was allocated \$226 million of costs related to its use of buildings, furniture and fixtures and \$28 million for use of the MCI tradenames, which assets have been attributed to the WorldCom group.

A credit of \$599 million and \$87 million to depreciation expense has been recorded by the WorldCom group and the MCI group, respectively, to reflect the allocation of a portion of the applicable costs for the use by the WorldCom group of the business voice switches attributed to the MCI group, and the proportionate use by the MCI group of the fiher optic systems and buildings, furniture and fixtures attributed to the WorldCom group. Additionally, a credit of \$28 million to amortization expense has been recorded by the WorldCom group to reflect the charge to the MCI group for use of the MCI tradenamcs.

(17) Consolidating Information—(Continued)

CONSOLIDATING STATEMENT OF CASH FLOWS (In millions)

	Year Ended December 31, 2000				
	WorldCom Gmup	MCI Gmup	Eliminations	WorldCom	
Cash flows from operating activities:					
Net income	\$ 2,598	\$ 1,555	\$ —	\$ 4,153	
Adjustments to reconcile net income to net cash provided					
by operating activities	2,132	781		3,513	
Net cash provided by operating activities	5,330	2,336		1,666	
Cash flows from investing activities:		<u> </u>			
Capital expenditures	(10,984)	(500)	_	(11,484)	
Acquisitions and related costs	(14)	_	-	(14)	
All other investing activities, net	(2,614)	(273)		(2,887)	
Net cash used in investing activities	(13,612)	(773)		(14,385)	
Cash flows from financing activities:	-		_		
Principal borrowings on debt, net	6,311		_	6,311	
Attributed stock activity of WorldCom, Inc	585		_	585	
Intergroup advances, net	1,592	(1,592)	_		
All other financing activities, net	(339)			(339)	
Net cash provided by (used in) financing activities	8,215	(1,592)		6,623	
Effect of exchange rate changes on cash	(19)			(19)	
Net decrease in cash and cash equivalents	(86)	(29)		(115)	
Cash and cash equivalents beginning of period	806	70	-	876	
Cash and cash equivalents end of period	\$ 720	\$ 41	\$ —	\$ 761	

(17) Consolidating Information—(Continued)

CONSOLIDATING BALANCE SHEET (In millions)

	At December 31, 2001					
	WorldCom Group	MCI Group	Eliminations(1)	WorldCom		
Current assets	\$ 8,179	\$ 1,926	\$ (900)	\$ 9,205		
Property and equipment, net	36,792	2,017	`	38,809		
Goodwill and other intangibles	40,818	9,719		50,537		
Other assets	6,112	227	(976)	5.363		
Total assets	\$91,901	\$13,889	\$ <u>(1,876</u>)	\$103,914		
Current liabilities	\$ 5,915	\$ 4,195	\$ (900)	\$ 9,210		
Long-term debt	24,533	5,505		30,038		
Noncurrent liabilities	3,742	1,876	(976)	4,642		
Minority interests	101	_		101		
Company obligated mandatorily redeemable and other						
preferred securities	1,993	_	heren	1,993		
Shareholders' investment	55,617	2,313		57.930		
Total liabilities and shareholders' investment	\$91,901	\$13,889	<u>\$(1,876)</u>	\$103,914		

⁽¹⁾ Represents the elimination of intergroup receivables and payables associated with other intergroup allocations between the WorldCom group and the MCI group. The WorldCom group had a net receivable from the MCI group (and the MCI group had a corresponding net payable to the WorldCom group) of \$1.9 billion, of which \$900 million was classified as current with the remainder classified as long-term.

(17) Consolidating Information—(Continued)

CONSOLIDATING STATEMENT OF OPERATIONS (In millions)

	Year Ended December 31, 2001				
	WorldCom Group	MCI Group	Eliminations	Worldcorn	
Revenues	\$21,348	\$13,831	<u>\$</u>	\$35,179	
Operating expenses: Line costs:					
Attributed costs (1)	8,019	6,720		14.739	
Intergroup allocated expenses (2)	101	360	(461)		
Selling, general and administrative:					
Attributed costs (1)	4,052	3,438	3,556	11,046	
Shared corporate services (3)	2,006	1,550	(3,556)		
Other intergroup allocated expenses (4)	_	360	(360)	_	
Depreciation and amortization:	4.041	1.000		7 000	
Attributed costs (1)	4,841	1,039		5,880	
Intergroup allocated expenses (5)	(720)	(101)	821	_	
Total	18,299	13,366		31,665	
Operating income	3,049	465	_	3,514	
Interest expense	(1,029)	(504)	_	(1,533)	
Miscellaneous income	412			412	
Income (loss) before income taxes and minority interests	2,432	(39)		2,393	
Income tax expense (benefit)	943	(16)	_	927	
Income (loss) before minority interests	1,489	(23)		1,466	
Minority interests	35	·—		35	
Net income (loss) before distributions on mandatorily	1.504	(02)		1 501	
redeemable preferred securities	1,524	(23)	_	1,501	
other preferred dividend requirements	117	_	_	117	
Net income (loss)	\$ 1,407	\$ (23)	\$ 	\$ 1,384	

⁽¹⁾ Attributed costs represent costs directly incurred by or attributed to the WorldCom group and the MCI group and do not include any intergroup allocations.

⁽²⁾ The WorldCom group was allocated \$101 million for its usage of our business voice switches, which have been attributed to the MCI group, and the MCI group was allocated \$360 million for its usage of our fiber optic systems, which have been attributed to the WorldCom group.

⁽³⁾ Our shared corporate services (such as executive management, human resources, legal, regulatory, accounting and tax, treasury, strategic planning and information systems support) have been allocated to the WorldCom group and the MCI group in the amounts of \$2.0 billion and \$1.6 billion, respectively.

⁽⁴⁾ The MCI group was allocated \$332 million of costs related to its use of buildings, furniture and fixtures and \$28 million for use of the MCI tradenames, which assets have been attributed to the WorldCom group.

⁽⁵⁾ A credit of \$692 million and \$101 million to depreciation expense has been recorded by the WorldCom group and the MCI group, respectively, to reflect the allocation of a portion of the applicable costs for the use by the WorldCom group of the business voice switches attributed to the MCI group, and the proportionate use by the MCI group of the fiber optic systems and buildings, furniture and fixtures attributed to the WorldCom group. Additionally, a credit of \$28 million to amortization expense has been recorded by the WorldCom group to reflect the charge to the MCI group for use **a** the MCI tradenames.

(17) Consolidating Information—(Continued)

CONSOLIDATING STATEMENT OF CASH FLOWS (In millions)

	Year Ended December 31, 2001			
	Worldcorn Group	MCI Group	Eliminations	Worldcorn
Cash flows from operating activities:				
Net income (loss)	\$ 1,524	\$ (23)	\$	\$ 1,501
Adjustments to reconcile net income (loss) to net cash				
provided by operating activities	5,081	1,412		6,493
Net cash provided by operating activities	6,605	1,389		7,994
Cash flows from investing activities:				
Capital expenditures	(7,619)	(267)		(7,886)
Acquisitions and related costs	(206)		BARTON .	(206)
All other investing activities, net	<u>(993</u>)	(605)		(1,598)
Net cash used in investing activities	(8,818)	(872)		(9,690)
Cash flows from financing activities:				
Principal borrowings (repayments) on debt, net	3,526	(495)		3,031
Attributed stock activity of WorldCom, Inc	124	_		124
Intergroup advances, net	(15)	15	_	_
All other financing activities, net	(555)	_(71)		(626)
Net cash provided by (used in) financing activities	3,080	(551)		2,529
Effect of exchange rate changes on cash	38	_		38
Net increase (decrease) in cash and cash equivalents	905	(34)		871
Cash and cash equivalents beginning of period	720	41	_	761
Deconsolidation of Embratel	(216)			(216)
Cash and cash equivalents end of period	\$ 1,409	\$ 7	<u> </u>	\$ 1,416